



# California Legislature

## Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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RICHARD ROBINSON  
CHAIRMAN

September 10, 1979

Letter Report 735

The Honorable Speaker of the Assembly  
The Honorable President pro Tempore of the Senate  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's letter report on audit standards for school and community college districts in California.

The auditors are Richard I. LaRock, CPA, Supervising Auditor, and Mildred Kiesel, CPA.

Respectfully submitted,

RICHARD ROBINSON  
Assemblyman, 72nd District  
Chairman, Joint Legislative  
Audit Committee



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### Office of the Auditor General

September 7, 1979

Letter Report 735

Honorable Richard Robinson, Chairman  
Members of the Joint Legislative  
Audit Committee  
State Capitol, Room 4158  
Sacramento, California 95814

Dear Mr. Chairman and Members:

Chapter 936, Statutes of 1977 gives the Auditor General continuing responsibility to assist and report on the development of audit standards for school and community college districts. This legislation requires the Auditor General to cooperate with state agencies in this endeavor, and, on July 30, 1980, to report this information to the Legislature:

1. Action taken to update school and community college audit procedures;
2. A sample review of individual district audits to determine compliance with audit standards;
3. Actions taken by the Department of Education and the Chancellor's Office to implement these statutes;
4. Recommendations for future action to assure increased utility of the audits.

The purpose of this interim report is to briefly apprise the Legislature of agencies' efforts in implementing the statutes.

#### BACKGROUND

Chapter 936, Statutes of 1977 is intended to "encourage sound fiscal management practices among school and community college districts for the most efficient and effective use of public funds for the education of children and community college students in California by strengthening fiscal accountability at the district, county, and state level."

To achieve this intended objective, the statute requires each school and community college district to provide for an annual audit to be performed by a Certified Public Accountant or a Public Accountant. The auditor's report must include a statement that the audit was conducted pursuant to the audit standards developed in accordance with Chapter 936, Statutes of 1977.

In the case of school district audits, the district submits the audit report to the State Department of Education and to the State Department of Finance. Districts submit community college audit reports to the Board of Governors of the California Community Colleges and to the State Department of Finance.

The statute further requires that on June 30, 1979, and each year thereafter, the Department of Education and the Chancellor's Office for California Community Colleges report to the Joint Legislative Audit Committee (JLAC) this information:

1. The number and nature of audit exceptions and the estimated amount of funds involved in such exceptions;
2. A list of districts or county superintendents who failed to file their audit reports as required;
3. The actions taken by the State Department of Education or the Chancellor's Office of California Community Colleges to eliminate audit exceptions and to comply with management improvement recommendations.

The State Department of Finance guidelines for the audit reports were first required by statute in 1953. In January 1979, the Department of Finance issued audit standards making the prescribed reporting format mandatory. Finance standards now require district auditors to make statements regarding the correctness of (1) district claims filed for reimbursement of state and federal categorical aid programs and (2) district reports submitted as a basis for state apportionments and allowances. District auditors must respond to specific compliance questions. Also, the auditors must state whether their audit was made in accordance with generally accepted auditing standards and the standards prescribed by the State Department of Finance.

SDE REVIEW OF AUDIT REPORTS  
AND REPORT TO JLAC

The State Department of Education (SDE) has reviewed 1977-78 fiscal year audit reports of school districts and has submitted its report to the Joint Legislative Audit Committee.

There are, however, numerous deficiencies in the SDE report. In general, the methodology developed by SDE for reviewing audit reports and for classifying and summarizing the number and nature of audit exceptions does not yield a reliable analysis of district fiscal problems.

One weakness is that SDE did not sufficiently define an audit exception or the parameters of various classifications of exceptions such as inaccurate accounting, lack of data, inappropriate use of funds, deviations from generally accepted accounting practices, and omissions. Consequently, SDE reviewers of the reports did not consistently identify and classify the audit exceptions. For example, the SDE report states that staff who reviewed audit reports disagreed "whether a disclaimer of opinion by the district auditor was an exception or not." We also noted that some SDE reviewers inconsistently classified district auditor's comments regarding the district's failure to maintain historical cost records of fixed assets as either "lack of data" or as "deviations from generally accepted accounting practices."

Members of the  
Joint Legislative Audit Committee  
September 7, 1979  
Page 4

Furthermore, the SDE report did not provide an adequate basis to indicate the relative seriousness of audit exceptions. The categories of audit exceptions did not segregate those which affected the district auditor's opinion(s) on (1) the fairness of financial statements of district funds (for example, the district General Fund, Child Development Fund, and Cafeteria Fund); (2) the propriety of claims filed for reimbursement of state and federal categorical aid programs; (3) the propriety of district reports submitted as a basis for state apportionments and allowances; and (4) comments which did not cause the district auditor to qualify his opinion(s).

SDE did not differentiate between the dollar amount of audit exceptions which affected state, county, or local funds. SDE commingled amounts of money due to and due from the districts and the dollar amount of exceptions which do not affect money due to or due from the districts. As a result, the dollar amounts of audit exceptions reported by SDE are of little value.

Finally, SDE's system for summarizing and tabulating the audit reports did not minimize the probability of errors in SDE's work. SDE manually tallied 1,076 district audit reports from fiscal year 1977-78. These data were summarized into 54 categories of exceptions with five classifications for nature of the exceptions. SDE staff tallied audit exceptions by individual district audit reports, summarized them by county, then posted them to a worksheet which listed all counties to arrive at the total data reported statewide. Since each audit report did not arrive at the same time, data already posted to the summary worksheet were erased to add the additional data accumulated. Moreover, because this system involved 58 counties, 54 categories of exceptions, and 5 sub-categories which were to be posted to a worksheet, it allowed considerable latitude for human error.

We believe the above deficiencies indicate that the SDE reviewers need financial audit expertise or supervision to develop a system for effectively reviewing district audit reports and for summarizing the audit exceptions.

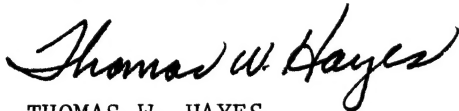
Members of the  
Joint Legislative Audit Committee  
September 7, 1979  
Page 6

4. The dollar amounts related to audit exceptions be recorded and summarized (1) to show state, county, or local funds affected and (2) to indicate whether money is due to or due from the districts.

CHANCELLOR'S REVIEW OF CALIFORNIA  
COMMUNITY COLLEGE AUDIT REPORTS  
AND REPORT TO JLAC

The Chancellor of the California Community Colleges has advised us that the Chancellor's Office has not reviewed 1977-78 fiscal year district audit reports and has not reported to JLAC on June 30, 1979 as required by statute. The Chancellor reports that these mandates cannot be met unless additional staffing is provided. The Chancellor states that he has requested the additional staff in the 1980-81 budget presentation now before the Board of Governors.

Respectfully,



THOMAS W. HAYES  
Acting Auditor General

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Staff: Richard I. LaRock, CPA  
Supervising Auditor  
Mildred Kiesel, CPA